

DECEMBER 2025

ANALYTICAL BRIEF

**Ukraine's current
institutional,
financial,
and policy
framework for
attracting
investments, with
emphasis on
productivity gap
and perspectives
on boosting labour
productivity**



Government
of Norway

Implemented with the support and financing of the Government of Norway.

1. CONTEXT: WHY INVEST IN UKRAINE

Ukraine presents a unique investment proposition, bringing together **strategic geographical position and resource endowment** on one hand and **a historic reconstruction opportunity, coupled with a credible reform momentum** on the other.

1.1 Ukraine represents a reconstruction opportunity of unprecedented scale

Ukraine is undergoing a profound structural transformation. World Bank's latest Rapid Damage and Needs Assessment (RDNA4), done in a co-operation with KSE Institute, estimates total recovery and reconstruction needs at **roughly \$524 billion over the coming**

decade, with upcoming RDNA5 estimates most likely to surpass \$600 billion.¹ Within that pipeline, six sectors stand out as priority areas for national development and strategic private-sector participation:

Defence

Ukraine is building what is arguably the most battlefield-tested defence industrial base in the world. Before the full-scale invasion, domestic defence production was estimated at around \$1 billion annually. Forecasts now point to a potential medium-term industrial capacity on the order of \$30–35 billion per year,² coupled with an ambition to position Ukraine among the leading global defence exporters.

Logistics

Ukraine combines significant renewable potential (wind, solar, biomass), large-scale storage and transit infrastructure, and deep integration with European power and gas networks. Its full synchronisation with ENTSO-E, the EU's electricity grid, and the focus of the Ukraine Facility on green transition investments create a basis for Ukraine to become a future green hydrogen and clean-energy hub for the EU.

Energy

Ukraine's long-term strategy is to become fully integrated into the EU's TEN-T transport corridors. The Ukraine Facility Plan and related EU initiatives prioritise investment in rail, road, border crossings and port infrastructure to connect Ukrainian production directly into European and global supply chains.

Critical Raw Materials

Ukraine holds 22 of the 34 critical raw materials identified by the EU, including titanium, graphite, lithium and various rare-earth and battery-relevant minerals.³ This positions the country as a natural partner for Europe's efforts in sectors such as batteries, aerospace, electronics and defence.

¹World Bank's Updated Ukraine RDNA4 at <https://www.worldbank.org/en/news/press-release/2025/02/25/updated-ukraine-recovery-and-reconstruction-needs-assessment-released>.

²https://ec.europa.eu/commission/presscorner/detail/en/speech_25_1180 (11 May 2025).

³See e.g., Reuters <https://www.reuters.com/markets/commodities/what-are-ukraines-critical-minerals-why-does-trump-want-them-2025-02-12/> (18 April 2025).

Agri-food

Ukraine supplies roughly 10% of global wheat and agriculture accounts for 63% of exports as of 2024. With land-market reform and digital registries in place, investment has begun to flow into agri-processing, irrigation, and high-value food manufacturing.

Social Infrastructure

RDNA4 estimates that housing, social infrastructure (healthcare and education) and municipal services together require well over \$150 billion in areas such as hospitals, schools, housing stock, water and sanitation, and municipal services.

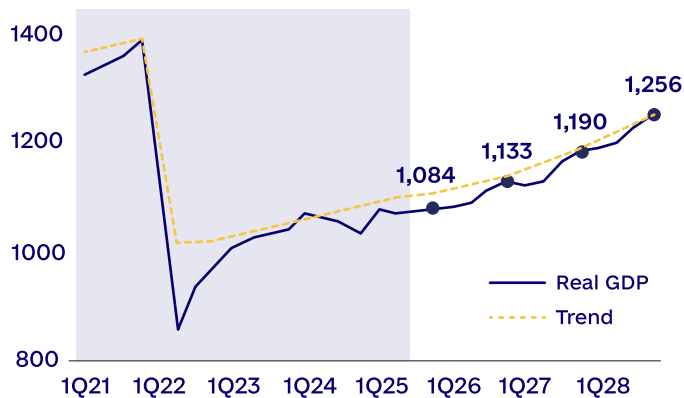
1.2. Macroeconomic fundamentals determine a foundation of resilience

Despite the occupation and destruction, Ukraine has grown steadily since 2023, with a post-war rapid recovery stage.

Ukraine's economy was majorly damaged in 2022, with occupation, mining contamination of fields, and destruction of numerous enterprises, which led to the contraction of 29% of GDP in 2022. Afterwards, the economy grew by 5.3% in 2023, offsetting some of the damages and returning some previously

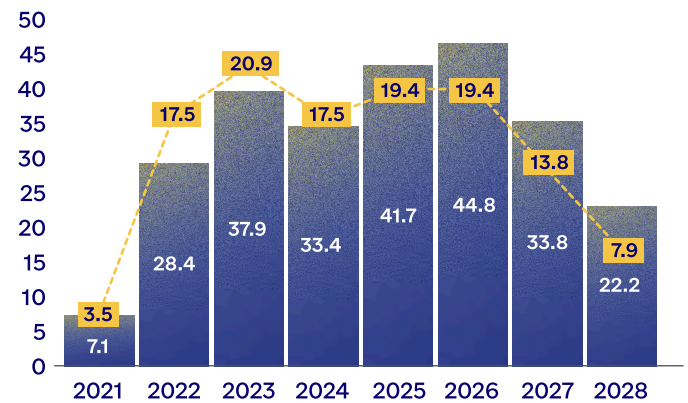
occupied territories, and then slowing down to 2.9% in 2024 amid weak harvest. The trend is unlikely to be reversed, despite the positive pressures from the growing military manufacturing sector. In 2025-26, the economy will grow between 2-2.5%, slightly less vs. other developing economies, yet a remarkable achievement for the economy at war. Meanwhile, assuming the war ends by the end of 2026, 2027-28 will become a recovery period, with major inflows of investments as risk premia gradually decrease, opening up opportunities for investment.

Figure 1: Real GDP and trend, 2021 UAH billion



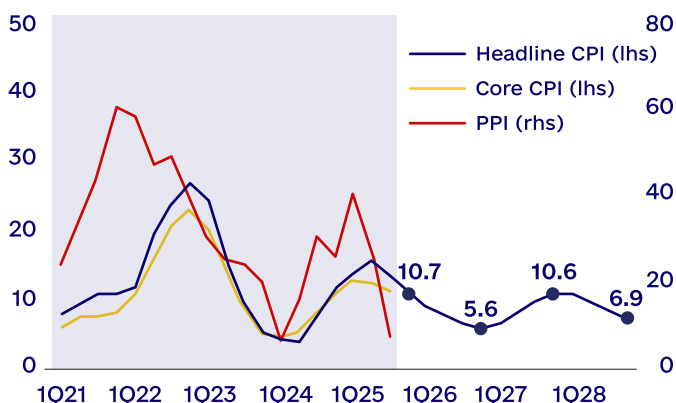
Source: SSSU, KSE Institute

Figure 2: Budget deficit



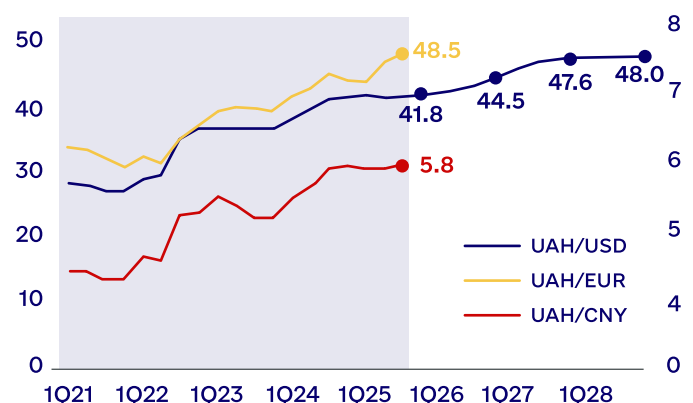
Source: Ministry of Finance, KSE Institute

Figure 3: Headline CPI, core inflation, and PPI, % y-o-y



Source: NBU, KSE Institute

Figure 4: FX UAH/USD (lhs), UAH/EUR (lhs), UAH/CNY (rhs)



Source: NBU, KSE Institute

Inflation stabilized after its initial peak in 2022, reinforcing Ukraine's macroeconomic stability.

Inflation peaked at about 25% in 2022, as the initial war shock took place, worsening expectations and disrupting supply chains. It consequently declined to the 0-10% corridor in 2023-24, as proactive and adequate monetary policy, exchange-rate management, and external support helped anchor expectations. Despite the May 2025 inflation peak of 15.9% (an outcome of numerous factors, including poor harvests), we observe a

disinflationary trend that will bring inflation to the one-digit level by the end of 2025 and continue into 2026-28. The trend is reinforced by tight monetary policy, with a current rate of 15.5% (and almost throughout 2025), and an overall elevated yet decreasing rate in 2026-28, with a faster decline during the "recovery stage" to support economic growth and recovery.

Ukraine's external position demonstrates resilience supported by international financing, yet managing structural trade imbalances remains crucial for long-term stability.

International reserves have piled to record levels, reaching

\$49.5 bln
as of November 2025,

following significant inflows of support, particularly due to the ERA loan that is expected to be fully redistributed in the near term, leaving some financing available for the first part of 2026. Yet, without the continuous and significant support in 2026-28, the reserves will decrease significantly. Meanwhile, the exchange rate, despite being rather stable in 2023-25 with a level in a corridor of 40-42 UAH/USD, is projected to devalue in the 2026-28 period to the level of 48, as the pressure on reserves is steadily increasing due to the

strengthening of the USD demand and strong structural trade deficit. This pressure is underpinned by a widening trade deficit, which has evolved into a structural challenge as imports are now effectively twice the size of exports.

While exports face logistical constraints and damaged capacity, imports are projected to grow to

\$81 bln
by the end of 2025,

driven by persistent defence needs and the high demand for machinery and transport equipment, required for the economic recovery.

Demographics and human capital also remain a critical component.

Ukraine's population is estimated at about 32 million, underpinned by a workforce considered well-educated, digitally literate, and cost-competitive by European standards. At the same time, the unemployment rate declined to roughly 10%, largely due to a war-related reduction in the labor force rather than growing demand. Despite a surge in job applications, 62% of businesses reported facing dreadful labor shortages, driven by severe skills mismatches and difficulties in finding qualified workers. This competitive environment is driving a robust recovery in incomes, with real wages projected to increase by approximately 12% in 2025 as companies prioritize investment in their workforce and employee retention over expansion. Looking ahead, the return of veterans following the war will provide a

crucial influx of human capital, helping to balance supply constraints and stabilize wagedynamics. (see section 4. Structural Challenges for Investment and the Productivity Gap).

1.3. EU integration prospects and reform momentum as structural tailwinds

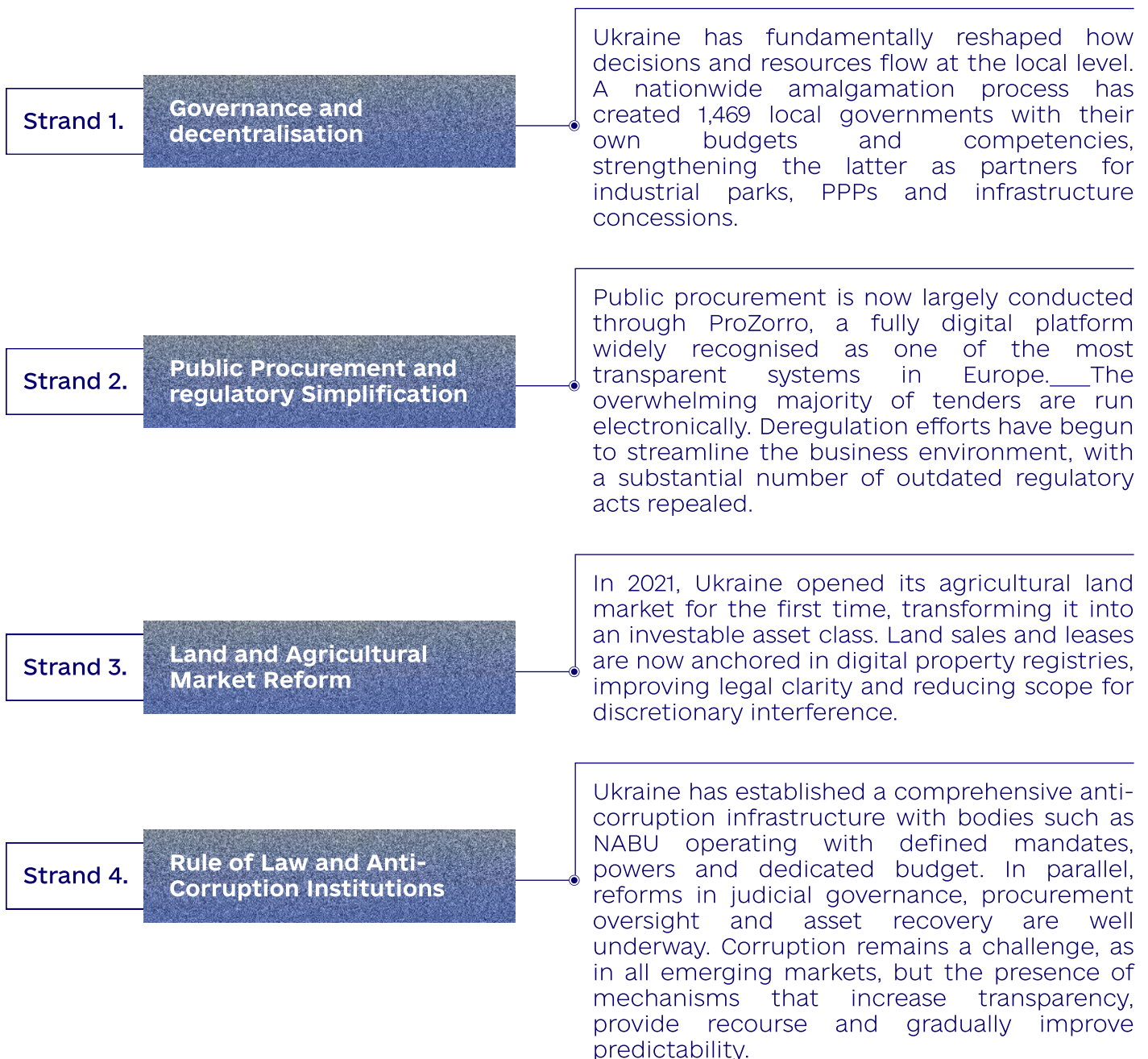
Ukraine now has **a clear path to EU membership**. The country stands roughly where peers like Poland and Romania were before their 2004 and 2007 accessions – but with a faster process and a larger reconstruction base.

The European Council decided in December 2023 to open accession negotiations and by 30 September 2025 Ukraine had completed the screening of EU law (the *acquis*) across all negotiating chapters. This alignment process runs in parallel with extensive trade liberalisation and regulatory integration: tariff-

free access to large parts of the EU market, deepened DCFTA implementation, and integration into European infrastructure and energy networks

At the same time, **the reform agenda adds credibility**. Ukraine is working through a comprehensive reform programme aligned with EU law, the Ukraine Facility and IMF benchmarks. A total of 533 measurable indicators are being tracked across six priority pillars, with nearly half already complete. Full alignment with the EU rule of law and single-market standards is targeted by 2028.

Within this broader framework, four strands of reform are particularly important for investors:

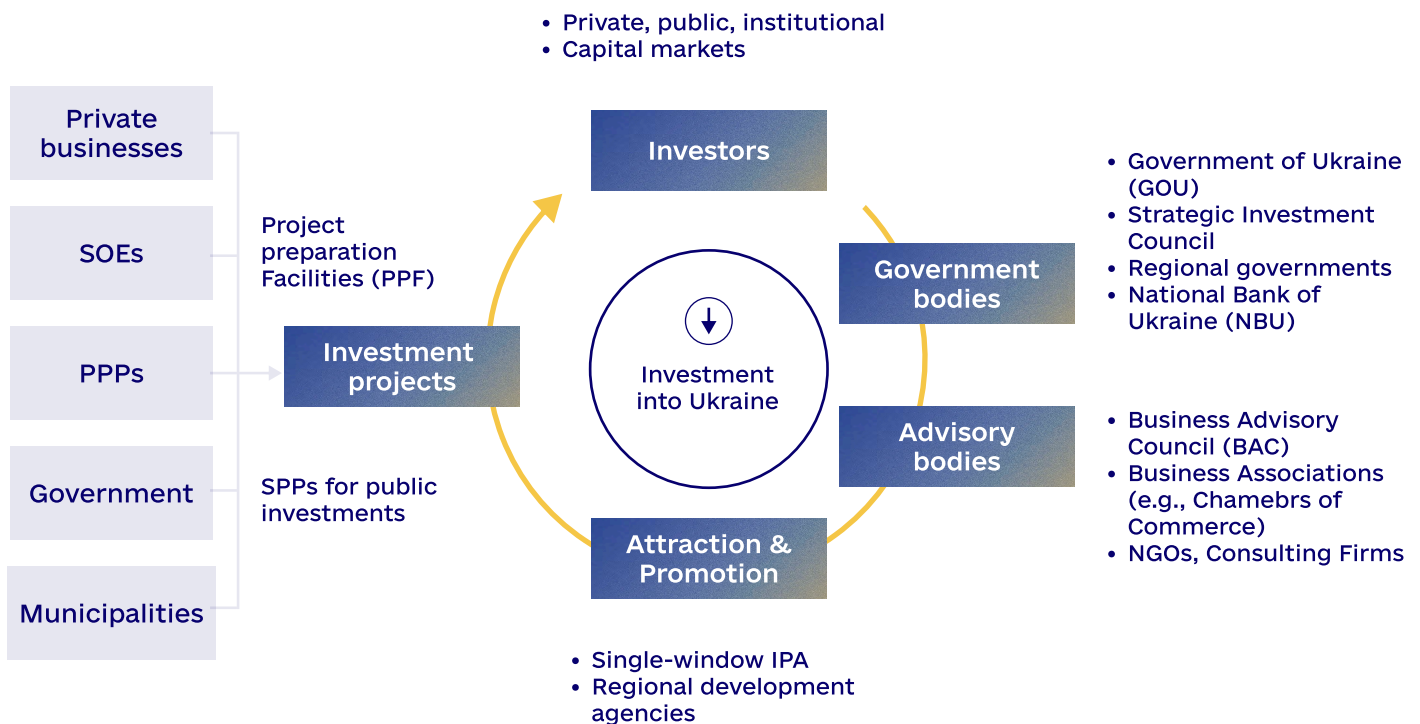


2. UKRAINIAN INVESTMENT ECOSYSTEM: INSTITUTIONAL FRAMEWORK AND EMERGING OPPORTUNITIES

Ukraine's investment ecosystem brings together a broad set of public, private, and advisory actors whose coordinated actions shape the pipeline, quality, and implementation of investment projects. The institutional framework operates across interlinked layers, combining policy making, investment promotion and public-investment management functions.

2.1. Strategic Investment Policy, Regulation, and Attraction Framework

UKRAINIAN INVESTMENT SUPPORT ECOSYSTEM



The institutional architecture comprises a set of clearly defined authorities, each playing a distinct role in shaping, attracting, facilitating, and safeguarding investments.

At the core of this ecosystem are **government bodies** such as the Cabinet of Ministers, the Strategic Investment Council, regional administrations, and the National Bank of Ukraine. These actors establish the policy, regulatory, and financial conditions for investment, while also guiding strategic priorities across sectors. Complementing them

are advisory bodies - including the Business Advisory Council, business associations, NGOs, and consulting firms - that channel private-sector perspectives into decision-making, support project preparation, and help strengthen investor confidence.

The main government actor on the front-facing layer is **UkraineInvest** - the government's investment-promotion office. The office is designed to be a front-door for strategic domestic and foreign investors, offering project matchmaking, regulatory

guidance, and facilitation for “significant investment” deals and special investment agreements.

Investment projects originate from a wide range of sources, including private businesses, SOEs, PPP structures, government agencies, and municipalities. **The public projects** feed into Ukraine’s Single Project Pipeline (SPP), which consolidates all public investment initiatives into one transparent, standardized

pipeline used for prioritisation and coordination with financing partners. Complementing this, Project Preparation Facilities (PPF) help ensure that projects are well structured, bankable, and ready for investor engagement. Once a project is matured and entered into the pipeline, investment attraction and promotion entities work to present opportunities to investors and facilitate investment decisions.

2.2. Investment Opportunities: Private Sector, PPPs, and Privatization

The institutions described above collectively create the scaffolding for Ukraine’s investment ecosystem. A central tool in this ecosystem is the **Ukraine Investment Project Portal** (<https://investportalua.com>), a national matchmaking platform that connects investors with Ukrainian companies seeking capital. The portal offers curated project profiles and integrates analytics from the **KSE Institute**, enabling data-driven assessment of market trends, sectoral potential, and the financial viability of individual opportunities. This digital interface significantly lowers information barriers and strengthens deal origination for both Ukrainian SMEs and international investors.

As of today, the portal features **318 investment projects** with a combined project value of **USD 71.1 billion** and the amount of required financing of **58.3 billion**. These opportunities span across 11 sectors critical for Ukraine’s modernisation and recovery, such as energy, industrial manufacturing, agrifood, transport and logistics, ICT and digital, healthcare, defence and dual-use technologies, critical materials, construction materials and structures, real estate and housing, as well as green steel, private equity and investment funds.



The breadth and scale of this pipeline illustrate Ukraine’s growing capacity to generate investor-ready projects across both traditional sectors and emerging strategic industries. The portal functions as a first point of contact for investors evaluating private sector ventures, equity placements, or expansion projects.

Beyond private sector initiatives, the portal also complements emerging opportunities in public-private partnerships (PPPs) and privatization.

The **PPP** pathway enables collaboration between public authorities and private investors across infrastructure, social services, and large-scale reconstruction. Ukraine has developed a transparent and structured PPP environment, which integrates project preparation, appraisal, financing, and implementation into a single transparent ecosystem.

Privatization represents the third investment pathway, offering access to more than 450 state-owned assets spanning industrial production, chemicals, mining, banking, energy distribution, real estate, and logistics. Recent transactions - such as UMCC (€91m), AEROC (€44m), and Hotel Ukraine (€57m) - demonstrate that Ukraine’s privatization process is functioning, transparent, and capable of delivering fair market outcomes even in wartime conditions.

The pipeline includes both small-scale assets and major strategic enterprises. Upcoming privatizations include the Odesa Portside Plant, Demurinsky titanium producer, and two state-owned banks - entities with significant market share, operational capacity, and real cash flows. For strategic investors, the privatization track offers a rare opportunity to enter key sectors at scale, acquiring assets that can be modernized, expanded, and integrated into European value chains.

The **State Property Fund of Ukraine (SPFU)** facilitates privatization and strategic asset sales, broadening avenues for private investment. It prepares assets for market entry, manages transparent auctions, and improves the governance and valuation of state enterprises to make them investor-ready. Through these functions, the SPFU helps channel private capital into sectors previously dominated by the state.

3. OVERVIEW OF THE INVESTMENT SUPPORT TOOLKIT: FINANCING, RISK MITIGATION AND GOVERNMENT INCENTIVES

Ukraine's ability to attract and sustain investment during wartime depends not only on macroeconomic stability, institutional robustness and the depth of its opportunity set, but also on the quality of its financial and policy toolkit. In practice, this toolkit can be understood along three complementary dimensions: **financing**, which determines how capital is mobilised and delivered; **risk mitigation**, which shapes how exposure is shared and managed; and **government policies**, which set the rules, incentives and safeguards for investors.

3.1. The financing architecture for Ukraine's recovery

Ukraine's financing architecture draws on a layered combination of **European instruments, international financial institutions, bilateral partnerships** and **domestic programmes**. Together, these channels form the backbone of Ukraine's strategy to crowd in private investment at scale.

3.1.1. European Union and the Ukraine Investment Framework

At the core of Ukraine's external financing architecture stands the **Ukraine Facility**, the European Union's multi-year assistance programme for 2024–2027. It foresees up to €50 billion in support, combining budget assistance, reform incentives and investment under a single framework. Within this structure, two instruments are particularly relevant for investors: the **Ukraine Plan** and the **Ukraine Investment Framework (UIF)**.

Whereas the Ukraine Plan provides for the implementation of reforms that will lay the foundation for further economic recovery and European integration, the UIF is the EU's flagship blended-finance platform for Ukraine. It is endowed with €9.3 billion in financial instruments, of which €7.8 billion are guarantees and €1.5 billion are allocated to blended finance and technical assistance.

Rather than lending directly to companies, the EC extends guarantees and grant envelopes to **Eligible Financial Institutions («EFIs»)**, such

as the EBRD, EIB, IFC and other DFIs, which then originate loans, equity and risk-sharing facilities in Ukraine.

The total amount of funds distributed as of October 2025 is €6.9 billion, of which €2.3 billion euros were signed at URC 2025 and are currently in the "activation" stage. This means that investment programs have been agreed but work is underway to sign bilateral agreements between partner EFIs and the European Commission.

€6.9 bln, of which

€2.3 bln
were signed
at URC 2025

UKRAINE INVESTMENT FRAMEWORK

€6.9B ARE APPROVED VIA EFIs AS AT OCTOBER 2025

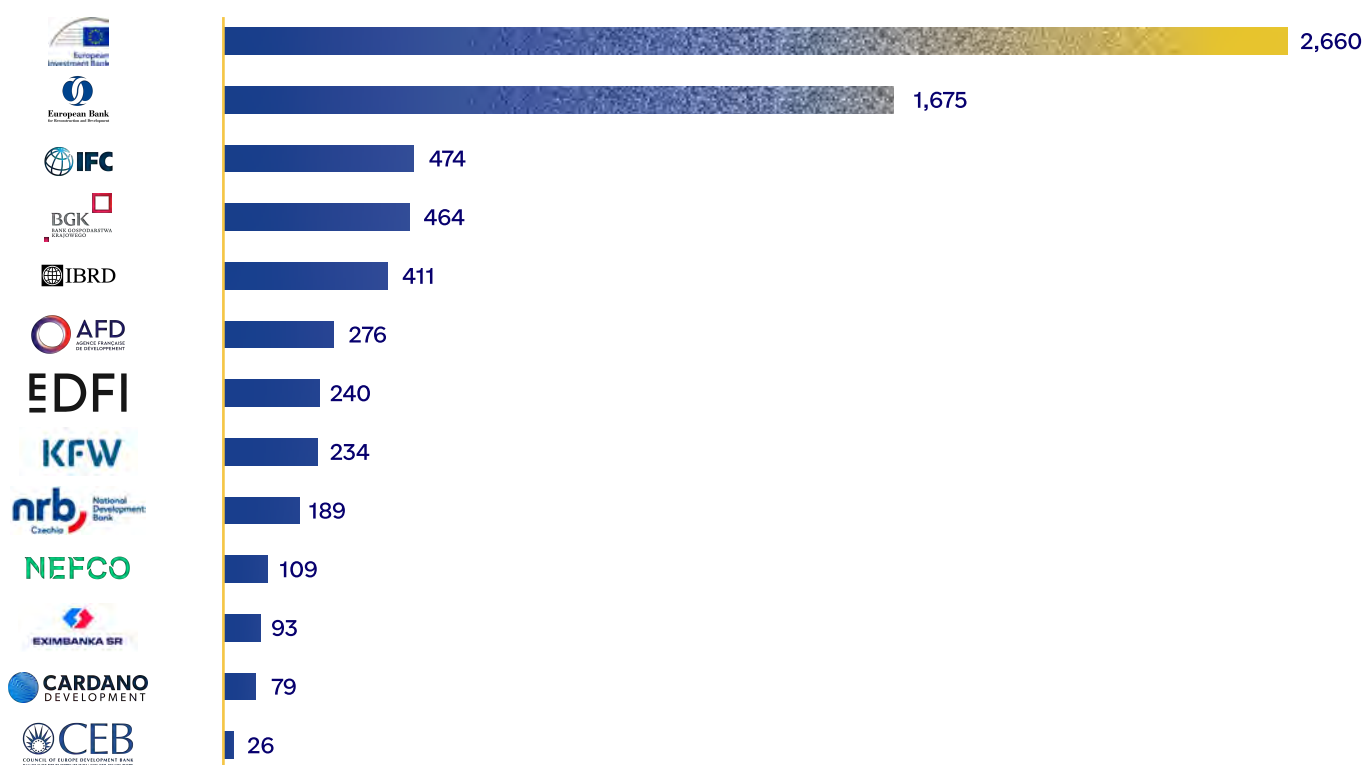
UIF PRELIMINARY BUDGET ALLOCATION (OCTOBER 2025)

Line	Guarantees (EUR M)	Grants (EUR M)	Total
Top-Ups (public, private, SMEs)	990	409	1,399
EIB public	1,950	-	1,950
Open calls (all rounds)	2,386	736	3,122
Banking call	300	153	453
Total approved	5,626	1,298	6,924
Envisaged for the European Flagship Fund	100	60	169
Remained - Banking Call	1,100	100	1,200
Unallocated amount	975	100	1,200
Total	7,800	1,741	9,541

EFIs: Eligible Finance Institutions

Source: European Commission, KSE analysis

TOTAL VALUE OF EFI PROGRAMS (EUR M)



In essence, **the UIF functions as a risk-sharing mechanism**. EU guarantees cover a defined share of potential losses on portfolios or specific operations (usually from around 30-100%), allowing partner EFIs to extend maturities, accept higher-risk borrowers or regions, and support projects that would otherwise sit outside their standard risk appetite, particularly in wartime conditions. Simply put, with these guarantees in place, the eligible institutions can lend more and take on riskier projects. Grants and blended finance are also available under UIF; however, the amounts allocated thereto are considerably smaller.

Under the UIF regulation **at least 15% of the**

loan guarantees (€1.2 billion) provided under the UIF should be dedicated to SMEs, including start-ups. This allocation is performed via intermediaries (local banks), which then disburse funds to their SME customers.

In practice, projects financed under the UIF vary by type and sectors. Around 58% of the allocated amount is directed to public sector projects. Major sectors financed include energy (€1.5 bln), municipalities (€1 bln), SMEs support (€1 bln), logistics, agriculture, pharmaceutical, telecommunications and others. At the next stage of UIF, dual-use projects will also be included.

3.1.2. International financial institutions

International financial institutions (IFIs) play a central role in Ukraine's investment ecosystem by designing bankable projects, providing long-term capital and supporting reforms that improve the business environment. In particular:

- The **EBRD** is among the most active IFI on the ground, having invested more than €8.5 bln in the country since the start of the full-scale invasion.⁴
- The **EIB** has likewise provided more than €4 bln in financing for Ukraine since 2022.⁵
- The **IFC** has mobilized \$2.6 bln during the same period in support of Ukraine's private sector.⁶

These institutions also act as key implementing partners under the UIF and other EU instruments (InvestEU, EFSD+) and often blend their own resources with EU guarantees and bilateral donor funds. In parallel, the **World Bank Group** provides policy-based lending and project finance in priority sectors; the **IMF** underpins macroeconomic stability through its Extended Fund Facility; and regional institutions such as the **Council of Europe Development Bank**, **NEFCO** and **BSTDB** contribute specialised financing in areas like social infrastructure, green municipal investments and trade.

3.1.3. Bilateral and government-to-government partnerships

At the bilateral level, many partner countries have framed their engagement with Ukraine around FDI attraction and the pursuit of specific reconstruction priorities. Such engagement often materializes as **government-to-government support agreements** that often focus on investment promotion and joint project development in sectors such as energy, critical raw materials and infrastructure.

National development banks, funds, agencies and **development finance institutions (DFIs)** add an additional tier of capital. In Norway, for example, Norfund (the state-owned DFI) manages the Ukraine Investment Fund, a

dedicated vehicle endowed with NOK500 million under the broader Nansen Program.⁷ Likewise **NORAD** provides technical assistance and grant funding that can be blended with commercial finance. Other European DFIs, export-import banks and promotional institutions have established similar Ukraine windows or co-investment schemes in coordination with the EU and IFIs.

Export credit agencies (ECAs) complement these efforts by providing guarantees and insurance that enable exporters and investors from their home countries to operate in Ukraine. Agencies such as **Eksfin (Norway)** but also KUKE (Poland), EIFO (Denmark),

⁴<https://www.ebrd.com/home/news-and-events/news/2025/ebird-finances-new-private-peak-energy-generation-and-storage-cap.html>

⁵<https://www.eib.org/en/press/all/2025-453-eu-expands-support-for-ukraine-with-more-than-eur200-million-in-new-grant-financing>

⁶<https://www.ifc.org/en/where-we-work/country/ukraine>

⁷<https://www.norfund.no/ukraine-investment-fund/>

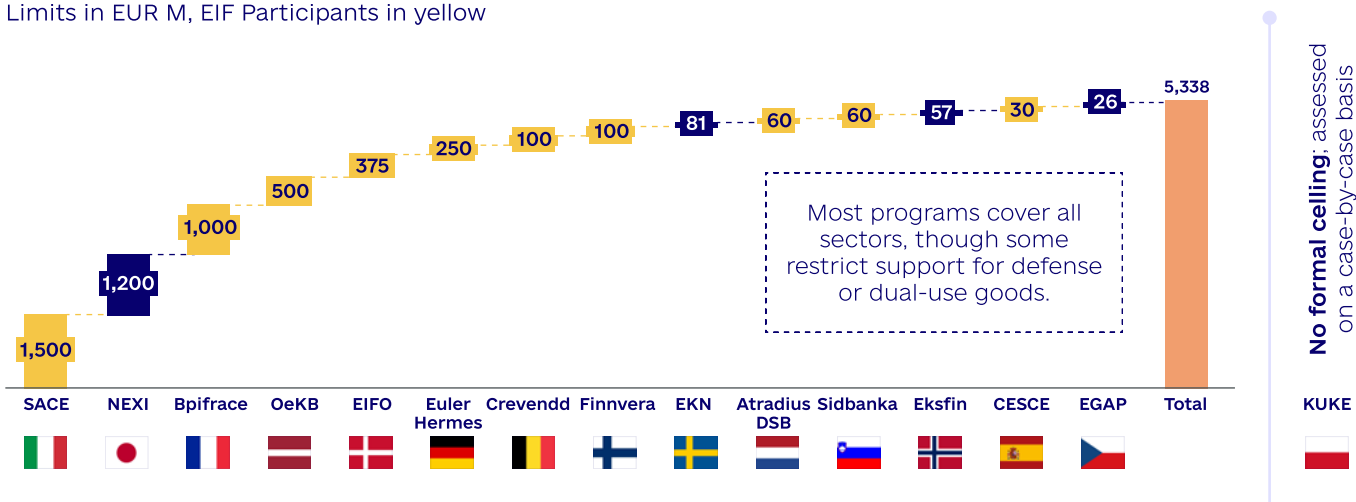
Bpifrance Assurance Export (France), EKN (Sweden), UKEF (UK), SACE (Italy) and others have reopened or expanded their cover for

Ukraine. Overall, we estimate that at least €5.3 billion in dedicated export credit financing is available for Ukraine.

WE ESTIMATE AT LEAST ~EUR 5.3B IN DEDICATED ECA FINANCING FOR UKRAINE AVAILABLE

ECAs WITH DEDICATED COUNTRY PROGRAMS IN UKRAINE

Limits in EUR M, EIF Participants in yellow



NOTES:

- ECAs without dedicated Ukraine programs can support Ukrainian buyers **via general schemes** (e.g., Slovakia's €10M ST credit insurance).
- Country-level limits may be structured as **multi-year ceilings** (e.g., Austria, Finland) or **revolving envelopes** (e.g., Czechia).
- Despite large headline capacity, **MLT utilization remains modest**, with few exceptions in infrastructure and energy.
- UK's **UKEF has a £3.5B limit**; by March 2025, this capacity was nearly exhausted, mainly via large-scale defense transactions.
- KUKE has insured ca. €1.5B (both ST and MLT) since 2022.

Source: KSE Institute analysis based on the survey via UDP

3.1.4. Domestic financing tools

Domestic financing tools are an essential complement to external capital, particularly for SMEs and mid-sized companies. The most well-known financing programs include **Affordable Loans 5–7–9%** and **eRobota**.

The country's flagship access to finance tool is Affordable Loans 5–7–9%. This programme is implemented via the Business Development Fund (BDF) through virtually all Ukrainian banks. Under this programme, the state covers part of the interest cost on hryvnia loans so that eligible businesses pay a reduced rate. While it has been in operation since 2020, after the full-scale invasion it has become the main

debt channel for SMEs. In 2025 alone, more than 24,000 loans with a value close to €1.5 billion have been issued.⁸

The eRobota programme complements these tools with grant support. The main programme, titled "Own Business" provides grants for micro-entrepreneurs to start or grow a business. There are also programmes for processing enterprises, greenhouses, horticulture aimed at productive investment and job creation but also a dedicated grant program for veterans and spouses.

⁸MinFin data at <https://www.kmu.gov.ua/en/news/minfin-za-chas-povnomashtabnoi-viiny-pidpriemtsi-otrymaly-dostupni-kredyty-na-3505-mlrd-hrn-za-derzhprohramoiu-5-7-9>

3.2. Insurance as a key de-risking driver








Risk-sharing instruments, particularly **war-risk and political-risk insurance**, are indispensable for mobilising private capital into wartime Ukraine and will remain so as long as elevated security risks persist in the wider region. Historically, investors faced a series of constraints: cover for the most relevant asset classes (industrial property, construction, logistics, energy) has been limited or highly selective; premiums have reflected elevated and volatile risk perceptions; reinsurance capacity withdrew from the market; and policies were short-term and fragmented, offering little comfort for multi-year project finance.

However, over the past three years, Ukraine and its partners have begun to close this gap.

Among others:

- A first group of mechanisms focuses on logistics and movable assets, including the EBRD–Aon facility for inland cargo, vehicles and rolling stock, and the WTW–VUSO programme for inland cargo and logistics for transported goods.
- A second group targets fixed assets e.g., Lloyd’s-backed schemes that insure commercial property more than 100 kilometres from the frontline.
- In addition, Ukraine’s Export Credit Agency and a growing set of country-specific ECA solutions for foreign exporters and investors in Ukraine offer a growing set of solutions including war and political risk cover, investment insurance and others.

DIFFERENT WAR & POLITICAL RISK INSURANCE MECHANISMS ARE NOW AVAILABLE IN UKRAINE

							
Backed by	EBRD & Aon (public-private sector cooperation)	WTW & WUSO (private sector providers)	Lloyd’s (private sector providers)	Ministry of Economy of Ukraine	International ECA’s / Partner gov’ts	World Bank Group	DFC & Aon (public-private sector cooperation)
Launched	2024	2024	2025	2024	2022	2023	2024
Coverage focus	Inland cargo, vehicles & rolling stock	Inland cargo & logistics for transported goods in Ukraine	Commercial property assets > 100 km from frontline	Ukrainian exporters abroad; Ukrainian and international investors in Ukraine	Foreign exporters in Ukraine; international investors in Ukraine	International investors in Ukraine	Ukrainian and international investors
Program size	€110M facility	No data	No data	No data	Country-specific	>€185M*	>€260* + €43M reinsurance
Limit per policy	€5M** (INGO)	No data	€43M (announced)	€8.3M	Country-specific	No data	€2.2M (ARX)



Assets and geography coverage specificity

* Estimated based on published transactions describing policies issued since the full-scale invasion

** Per case limit is €2M

Source: KSE analysis

In parallel, the Ukrainian authorities are working to strengthen the regulatory and policy foundation for long-term risk transfer. The Ministry of Economy is developing a state compensation mechanism for war-related damages and leading an Insurance Task Force to coordinate policy, donor engagement and private-sector initiatives. The National Bank of Ukraine is updating insurance regulation in

line with EU Solvency II principles, liberalising foreign reinsurance flows and exploring the creation of a national catastrophe and war-risk pool. The next challenge is scale: mobilising additional capital and instruments so that affordable coverage extends to large energy, logistics, defence-industrial and infrastructure projects.

3.3. Other government policies and incentives

In addition to de-risking and financing solutions, Ukraine has developed a set of targeted legal and policy that aim to attract long-term private capital, incentivize high-value projects, reduce administrative barriers, and align investment governance with EU standards.

A key instrument is the Law “On State Support for Investment Projects with Significant Investments” whose main objective is to provide a framework for special investment agreements between the state and investors committing at least €12 million in priority sectors such as manufacturing, logistics, renewable energy, high-tech industries and healthcare. Under these agreements, qualifying projects may receive a package of state support—including tax and customs incentives, state-funded off-site infrastructure and facilitated access to land—up to a ceiling of 30% of project capital expenditure. The law also embeds stabilisation clauses and clear procedures for concluding and registering agreements.

Government incentives apply also for participants in Industrial Parks as well as in specific sectors of economic activity.

4. STRUCTURAL CHALLENGES FOR INVESTMENT AND THE PRODUCTIVITY GAP

Despite Ukraine's considerable opportunity set and the growing sophistication of its financing and risk-sharing architecture, investors still face several structural challenges. The latter can be broadly grouped into the following five categories:

- **Security and geopolitical risk.** The full-scale invasion has created a persistent layer of physical risk, with targeted attacks on energy, logistics, and industrial assets. International analyses consistently point to security as a first-order driver of investor caution and higher cost of capital.⁹
- **Institutional and regulatory frictions** also weigh on investment. Weak corporate governance imposes persistent constraints on capturing investment at scale. At the same time, many state-owned enterprises (SOEs) and fragmented ownership in strategic sectors reduce transparency, raise the risk of state capture, and undermine confidence.¹⁰ In addition, despite ongoing reforms, concerns remain around rule-of-law enforcement, contract resolution, regulatory predictability, and administrative burdens.¹¹
- **Infrastructure and physical capital.** Damage to transport, energy, and municipal infrastructure creates bottlenecks for logistics, increases operating costs, and requires investors to factor in additional redundancy and backup systems.
- **Financing constraints.** Ukraine's banking system has remained stable and has shown remarkable flexibility, but private investment remains subdued and heavily reliant on concessional and guaranteed instruments. OECD analysis highlights low private investment rates relative to peers, high perceived risks, and limited access to long-term finance as key obstacles to scaling up capital formation.¹²
- **Firm-level and labour-market productivity.** Given the micro and small firm dominance in the economy, informality remains high while capital per worker is low. Human-capital constraints, labour shortages (especially given displacement and mobilisation, etc), and skills mismatches reduce the appeal of Ukraine as a high-productivity investment destination. In addition, they hinder the capacity for large-scale project preparation.

While the evolving institutional landscape and continuously expanding investment toolkit (see section 3. Overview of the Investment Support Toolkit: Financing, Risk Mitigation

and Government Incentives) address, at least on a partial basis, the first four concerns, firm-level and labour market productivity remain a persisting constraint.

⁹ See e.g., OECD Economic Surveys: Ukraine 2025 at https://www.oecd.org/en/publications/oecd-economic-surveys-ukraine-2025_940cee85-en/full-report/fostering-macroeconomic-stability-and-a-sustainable-recovery_24ed81a1.html

¹⁰ Id.

¹¹ See the US Department of State Climate Statements for Ukraine at: <https://www.state.gov/reports/2024-investment-climate-statements/ukraine>

¹² OECD, note 9

Many studies point to a persistent productivity gap relative to Central European peers and the EU average, reflecting both structural and firm-level factors that predate the full-scale invasion. In manufacturing – a key benchmark sector – the United Nations Industrial Development Organization (UNIDO) finds Ukraine at the bottom of the peer group. In fact, Ukraine and Romania exhibit the lowest manufacturing labour productivity among Eastern European comparators.

By contrast, Poland, Hungary, Slovakia and Türkiye record much higher output per worker in industry. UNIDO data show that, by 2021, **manufacturing value added** per worker in Ukraine was only a fraction of the EU average

(roughly **\$25–30k** vs **~\$74k** in the EU27). Even before the war, per-capita GDP and output per worker were substantially below those of Hungary, Poland, Romania and Slovakia. The productivity gap is not just a wartime phenomenon: Ukraine has persistently trailed its neighbors.¹³

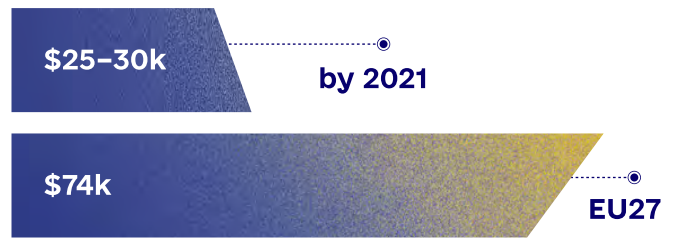
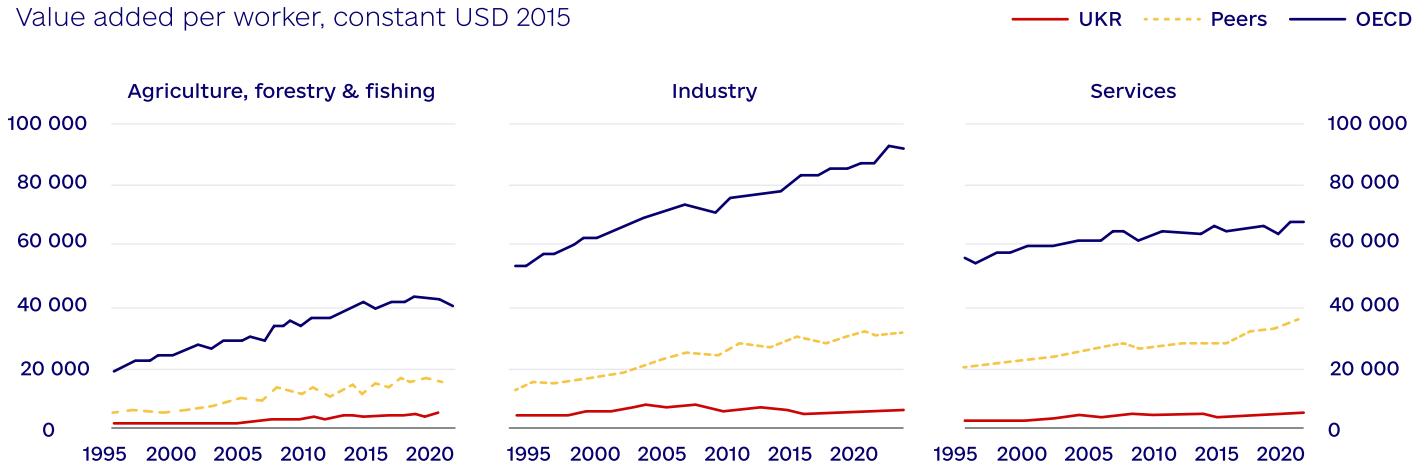


Figure 5: Productivity has been weak across all sectors

Value added per worker, constant USD 2015



Note: Lithuania and Romania are missing from peers.

Source: World Bank, World Development Indicators (WDI).

This suggests both the need and potential for catch-up. If Ukraine can rebuild and modernize, aided by EU market access and technology transfer, there is clear scope for **convergence**. Central European economies serve as a useful benchmark: after EU accession, countries such as Poland, Slovakia, and Romania experienced rapid productivity gains, driven by foreign investment, capital deepening, and integration into European value chains.

A similar pattern could emerge for Ukraine, and to an even larger extent, as much of the productivity growth is suppressed by the actual war. Today, Ukraine's average labor productivity stands at roughly **25-35%** of the Central European level (depending on sector), and wages reflect this gap. If Ukraine narrows even half of this distance through capital upgrading, institutional reform, and reallocation toward higher-value sectors, wage convergence would follow naturally. The experience of its neighbors shows that once **investment per worker** and **technology adoption** accelerate, wages tend to rise quickly - not because of artificial policy pushes, but because firms compete for increasingly skilled labor in a modernizing, integrated market.

Their **labor productivity doubled or tripled** within a decade, and **real wages followed**, rising roughly

60-120%

as productivity improvements became embedded in firms and institutions.

Decomposing the productivity gap suggests multiple reasons why, despite a comparatively well-educated and digitally literate workforce, Ukraine lags behind its peers. A first driver of this gap is **firm size and structure**. SMEs

¹³ OECD, note 9. OECD is also the source for the graph.

account for more than 80% of total employment;¹⁴ the same enterprises tend to invest less in machinery, technology, and skills, as they face higher per-unit costs in complying with regulations and accessing finance. As a result, the composition of the enterprise sector itself pulls down aggregate investment and productivity.

A second set of factors relates to **capital deepening and the adoption of technology**. Low and volatile private investment over the past decade has limited the pace at which firms can upgrade equipment, digitize processes, or move up the value chain. On the eve of the war, **gross fixed investment** was approximately 10 pp below the OECD average in GDP terms. This persistent investment gap means Ukrainian firms have older, less efficient machinery and facilities. Ukrainian manufacturing has room to be additionally supported with investments in modern technology and machinery to narrow its capital stock gap and compete effectively, with significant potential gains. Similarly, **chronic underinvestment** in infrastructure (roads, power, and digital networks) and corporate R&D, amid the war that destroyed the abovementioned capital, has hindered productivity growth.

Sectoral composition further reinforces the productivity gap. Agriculture employs a large share of the workforce relative to its contribution to GDP, while a significant portion of employment remains in relatively low-productivity services.¹⁵ High-productivity, knowledge-intensive sectors (e.g., advanced manufacturing and IT) have grown rapidly but from a small base.

The full-scale war then delivered an enormous shock to Ukraine's economy and labor force. By early 2024, accumulated **direct damage** was estimated at

~\$155 bln
roughly **87%** of 2023 GDP

with infrastructure, industry, housing, and energy particularly hard hit.

This includes destruction or damage to over **167,000** housing units, **~25,000 km** of roads, **350** bridges, and **30%** of pre-war agricultural capital. The loss of capital stock (machines, factories, crops, livestock) has sharply reduced output and depressed productivity.

167,000

housing units

~25,000 km

of roads

350

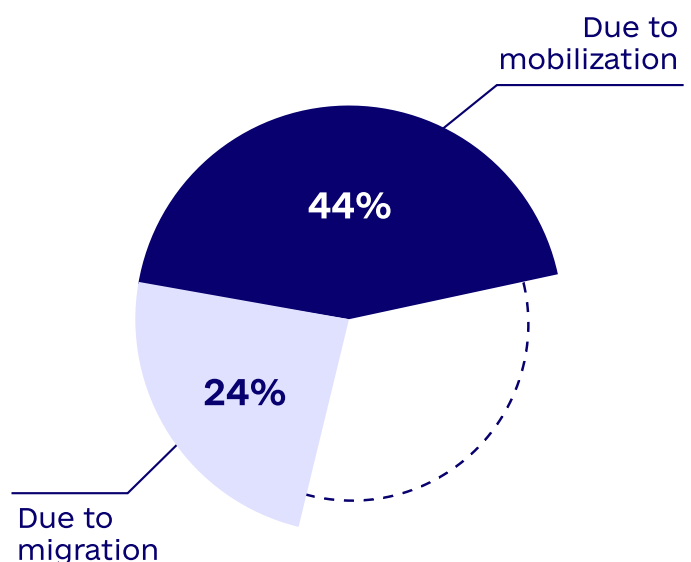
bridges

30%

of pre-war
agricultural capital

Destruction of physical infrastructure has disrupted logistics and commerce. For example, blockade of **Black Sea ports** and damage to grain facilities hampered agriculture's effectiveness (though grain exports later partially recovered). Damage to factories and mines in the east and south halted production in some regions.

Beyond physical damage, the war's **demographic impact** is striking. By early 2025, over **11.5 million people** were **displaced** (about **4.6 million** internally). Roughly **6.7 million** Ukrainians migrated abroad, of whom **1.7 million** had been employed in Ukraine (about **10%** of the pre-war labor force). In addition, large-scale conscription and mobilization have directly removed many working-age men from the civilian labor pool. As a result, firms report acute **labor shortages: 44%** of businesses surveyed in 2023 faced staffing difficulties due to mobilization, and **24%** due to migration. The National Bank of Ukraine estimates that the workforce contracted by roughly **40%** in 2023 compared to 2021.



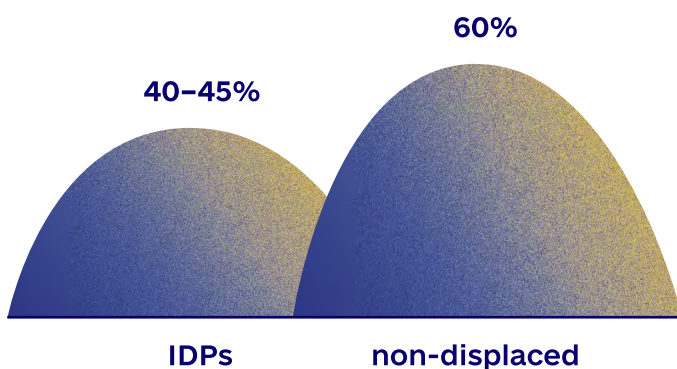
¹⁴ OECD, Enhancing Resilience by Boosting Digital Business Transformation in Ukraine (2024), https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/05/enhancing-resilience-by-boosting-digital-business-transformation-in-ukraine_c2e06e50/4b13b0bb-en.pdf

¹⁵ OECD, note 11 (noting that agriculture accounted , combined with compulsory military service, has created a genuine than 17% of employment pre-2022 while contributing only about 8% of GDP).

War mobilization has sharply reduced the labor supply and raised **skills mismatches**. The mass exodus of mainly younger workers, combined with compulsory military service, has created a scarcity of workers in many sectors. As noted, NBU surveys find that over one-third of firms in 2023 reported a **workforce shortage**. The decline in the labor force is not just a raw numbers issue: those who remain often do not match employers' skill needs. Surveys show **~16-18%** of businesses report that applicants lack the required qualifications for open positions. Additionally, some displaced populations in certain regions may require time to reorient their skills, thereby delaying their labor force activity.

The education and vocational training system is facing a severe strain. Many teachers, engineers, and students were displaced or conscripted. Technical colleges struggle to offer modern curricula without stable campuses or equipment. Meanwhile, the private sector urgently needs **STEM**, language, and management skills that were scarce before the war. Recognizing this, Ukraine and its partners have launched reskilling initiatives. For example, a multi-year **"Skills Alliance"** program (backed by the EU and other donors) is mobilizing roughly over three years to retrain Ukrainians in key sectors (IT, construction, transport, healthcare, etc.)

The war has greatly expanded vulnerable populations who need integration into the labor force: internally displaced people (IDPs), war veterans (including disabled veterans), and persons with disabilities. Reintegrating these groups can both improve livelihoods and alleviate some labor shortages. For instance, there are over **4.6 million** IDPs in Ukraine, a large share of working age. Yet surveys show only about **40-45%** of working-age IDPs were employed as of 2023, compared to over **60%** among non-displaced.



Barriers include a lack of local job opportunities, skill mismatches, and childcare or housing issues after relocation. The government has responded with targeted support: employment services have placed

displaced job seekers in work, and employers can access **wage subsidies** or **grants** to hire IDPs. Early signs are encouraging – a State Employment Service (SES) survey finds roughly **75%** of firms report no barriers to hiring IDPs – but sustained effort is needed.

Similarly, integrating veterans and persons with disabilities is a priority. According to KSE estimates, only **~20%** of veterans who applied for a civilian job were hired, and only **~16%** of people with disabilities were employed (**40%** of disabled workers needed no special adaptation).

There are now roughly

1.2 million

veterans (combatants and others) in Ukraine. To engage these groups, Ukraine has introduced programs through the SES and a State Fund, including business grants (e.g., the **e-Robota** entrepreneurship support scheme), wage subsidies, workplace adaptation funding, and fast-track training slots.

Recent data show rising employer interest: in 2024, **65%** of firms saw no obstacle to hiring veterans, and **60%** no obstacle to hiring people with disabilities, and a growing share of SES-assisted placements are for disabled persons. These efforts will need to expand further, especially as veterans re-enter civilian life en masse after the conflict; notably, surveys find many ex-combatants are eager to start businesses (over **60%** plan entrepreneurship).

Finally, **governance and competition dynamics** interact with productivity outcomes. Weak competition in some sectors, linked to concentrated legacy structures reduces incentives to innovate or move into higher value-added activities. At the same time, gaps in insolvency, corporate governance and contract enforcement frameworks slow down the reallocation of capital and labour toward more efficient uses. The existence of a large and fragmented SOE sector (~3,100 enterprises) with limited capacity to prepare bankable, large-scale projects also dilutes the impact of guarantees and blended finance.

5. RECOMMENDATIONS AND THE WAY FORWARD

Given the opportunities and constraints outlined above, the central challenge for Ukraine is not only to mobilise capital, but to ensure that FDI raises productivity, and translates into concrete gains in competitiveness. Three dimensions emerge as particularly relevant: (i) **scaling up FDI** through targeted reforms that address existing barriers (ii) **supporting capital and innovation investments** and (iii) investing in **upskilling/re-education** of the workforce. Below are a few thoughts on how we could cooperate across each dimension.

5.1 Scaling up FDI through targeted reforms

A key priority should be accelerating reforms that create a predictable and secure environment for investment, underpinned by a strong rule of law, judicial integrity, and clear, straightforward regulation. The emphasis should be on removing structural barriers that limit productive investment, strengthening corporate governance, and fostering fair competition. Transparent and consistently applied rules, together with reduced administrative burdens, are essential for attracting larger, longer-term capital. Advancing this work could take place through:

Analytical collaboration on FDI policy initiatives and their objectives.

This work could be structured around providing a robust analytical foundation for investment-related reforms. KSE can help quantify productivity shortfalls, map sectoral productivity differences and simulate the impact of specific reforms on investment. This can also extend to analysing and supporting improvements in corporate governance - both in state-owned and private sector enterprises. As part of its ongoing portfolio, the Institute supports the alignment of key foreign-investment frameworks (including the UIF) with the Government's policy objectives through analytical briefs and evidence-based recommendations.

Furthering stakeholder dialogue. This work could be structured around facilitating regular, well-targeted engagement between key actors in the investment ecosystem. KSE maintains strong connections with government counterparts, business leaders, IFIs, DFIs and investors, and frequently convenes bilateral meetings, roundtables and workshops aimed at aligning investment-promotion efforts with structural-reform priorities. Such discussions often take place alongside international events where KSE actively participates, including the Ukraine Recovery Conference and other fora dedicated to Ukraine's reconstruction.

5.2 Supporting capital and innovation investments

Increasing capital expenditure in modern equipment, digital tools, automation and upgraded production capacity is essential for enabling firms to modernise and shift into higher-productivity manufacturing and services. These investments are also critical for closing Ukraine's productivity gap, which continues to limit competitiveness and long-term growth. This means scaling up capital financing, but also supporting a gradual structural shift toward sectors with higher value added and stronger innovation potential. KSE's approach in this area is practical and investor-facing, with the objective of articulating needs clearly and helping bridge the gap

between policy, financing tools and concrete project pipelines. More specifically, advancing this work could take place through:

Authoring dedicated materials to support investment decisions. This work can be organised around providing investors and policymakers with clear, targeted guidance on where capital deepening and technological modernisation are most needed, and which financing instruments can most effectively support these priorities. KSE can prepare focused publications and analytical notes that outline investment needs, explain the use of such tools as UIF, IFI facilities, guarantees, grants, and illustrate how projects can be structured to maximise both financial returns and productivity impact. This builds on existing KSE products such as the [Ukraine Investment Catalogue](#), [Investment guide on Development of the Energy Sector](#) and the [Financial Guide for Business in Ukraine](#).

Pipeline support and matchmaking. This work can be structured around strengthening the quality, visibility and investor-readiness of the project pipeline. Through the Invest Portal, KSE supports the preparations of investment-ready project dossiers, assess their expected productivity impact, and facilitates matchmaking between Ukrainian companies and international investors. This also includes curating and vetting the private-sector project pipeline (as discussed above (see [section 2. Ukrainian's Investment Ecosystem: Institutional Framework and Emerging Opportunities](#))) and working closely with investors to identify opportunities, which matches their specific mandates, risk appetites and strategic priorities.

5.3 Upskilling and re-education

Closing the productivity gap is ultimately impossible without a parallel upgrade in human capital. This includes expanding vocational education, lifelong learning and reskilling schemes, addressing labour-force participation gaps (gender, older workers, IDPs, veterans) and promoting better management and organisational practices in firms. Well-designed “productivity ladder” programmes should therefore combine support for technology adoption with workforce upskilling and clustering of firms in higher-productivity sectors. Advancing this work could take place through:

Enhancing vocational education, lifelong learning and reskilling programmes to equip workers for higher-value tasks and technologies (automation, digitalisation).

Addressing labour-force participation gaps (gender, older workers, internally displaced persons) to mobilise under-utilised human capital.

Targeted training and management development. KSE can help design and deliver focused training programmes for firms and entrepreneurs, covering management skills, financial and operational planning, digitalisation and organisational change, linked to concrete investment and modernisation projects. For example, in 2025, we launched a series of business training sessions intended to improve access to financing for SMEs.¹⁶

¹⁶ See <https://business-trainings.investportalua.com/en/>.